



China Digital Culture (Group) Limited  
中國數碼文化(集團)有限公司

(Formerly known as China Digital Licensing (Group) Limited

中國數碼版權(集團)有限公司)

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 8175)

First Quarterly Report 2014



## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors (the “Directors”) of China Digital Culture (Group) Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

#### **Executive Directors**

Hsu Tung Sheng (*Chairman*)

Hsu Tung Chi (*Chief Executive Officer*)

Pang Hong Tao

Chang Li Cheng (*resigned on 14 April 2014*)

#### **Independent Non-executive Directors**

Kwok Chi Sun, Vincent

Leung Hiu Kong, Edward

Wong Tak Shing

#### **AUDIT COMMITTEE**

Kwok Chi Sun, Vincent

Leung Hiu Kong, Edward

Wong Tak Shing

#### **REMUNERATION COMMITTEE**

Kwok Chi Sun, Vincent

Leung Hiu Kong, Edward

Hsu Tung Chi

#### **NOMINATION COMMITTEE**

Kwok Chi Sun, Vincent

Hsu Tung Chi

Wong Tak Shing

#### **COMPANY SECRETARY**

Chan Kin Ho, Philip

#### **COMPLIANCE OFFICER**

Hsu Tung Chi

#### **AUTHORISED REPRESENTATIVES**

Hsu Tung Chi

Chan Kin Ho, Philip

## **AUDITOR**

Mazars CPA Limited

*Certified Public Accountants*

## **LEGAL ADVISER**

Phillips Solicitors

## **REGISTERED OFFICE**

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

## **HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

Room 2801A, Tower 1

Lippo Centre

89 Queensway

Hong Kong

## **SHARE REGISTRAR**

Tricor Standard Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

## **PRINCIPAL BANKER**

Standard Chartered Bank (Hong Kong) Limited

## **WEBSITE ADDRESS**

[www.cdculture.com](http://www.cdculture.com)

## **STOCK CODE**

8175

## FIRST QUARTERLY RESULTS (UNAUDITED)

The board (the "Board") of directors (the "Directors") is pleased to present an unaudited consolidated financial statements of the Company and its subsidiaries (together the "Group") for the three months ended 31 March 2014 together with the comparative figures for the corresponding period in 2013, as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2014

		<b>Three Months ended 31 March</b>	
	Note	<b>2014 (Unaudited) HK\$'000</b>	2013 (Unaudited) HK\$'000 (Restated)
<b>Continuing Operations</b>			
Turnover	4	<b>26,375</b>	4,488
Cost of services rendered and cost of good sold		<b>(7,286)</b>	(537)
Gross profit		<b>19,089</b>	3,951
Other income		<b>255</b>	234
Administrative and other expenses		<b>(5,597)</b>	(2,106)
Finance costs		<b>(1)</b>	(66)
Share of results of associates		<b>-</b>	932
<b>Profit before taxation from continuing operations</b>		<b>13,746</b>	2,945
Income tax expense	5	<b>(4,496)</b>	(47)
<b>Profit for the period from continuing operations</b>		<b>9,250</b>	2,898
<b>Discontinued Operations</b>			
Profit for the period from discontinued operations (net of tax)	3	<b>-</b>	126
<b>Profit for the period</b>		<b>9,250</b>	3,024
<b>Other comprehensive income for the period</b>			
Foreign currency translation differences		<b>(436)</b>	-
<b>Total comprehensive income for the period</b>		<b>8,814</b>	3,024

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 31 March 2014

	Note	Three Months ended 31 March	
		2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000 (Restated)
<b>Profit attributable to: Equity holders of the Company</b>			
– Continuing operations		6,889	1,028
– Discontinued operations		–	64
		<b>6,889</b>	1,092
<b>Non-controlling interests</b>			
– Continuing operations		2,361	1,870
– Discontinued operations		–	62
		<b>2,361</b>	1,932
		<b>9,250</b>	3,024
<b>Total comprehensive income attributable to: Equity holders of the Company</b>			
– Continuing operations		6,579	1,028
– Discontinued operations		–	64
		<b>6,579</b>	1,092
<b>Non-controlling interests</b>			
– Continuing operations		2,235	1,870
– Discontinued operations		–	62
		<b>2,235</b>	1,932
		<b>8,814</b>	3,024
<b>Dividends</b>			
<b>Basic earnings per share</b>			
– Continuing operations		HK0.21 cents	HK0.04 cents
– Discontinued operations		–	HK0.00 cents
		<b>HK0.21 cents</b>	HK0.04 cents
<b>Diluted earnings per share</b>			
– Continuing operations		HK0.20 cents	HK0.04 cents
– Discontinued operations		–	HK0.00 cents
		<b>HK0.20 cents</b>	HK0.04 cents

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2014

	Share capital	Share premium	Special reserve	Capital reserve	Warrant reserve	Convertible bonds reserve	Foreign currency translation reserve	Share option reserve	Accumulated losses	Total reserves	Subtotal	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note b)	(Note c)									
<b>2013</b>													
At 1 January 2013	122,979	173,515	10,084	-	276	1,279	178	12,251	(248,638)	(51,055)	71,924	(20,820)	51,104
<b>Profit for the period and total comprehensive income for the period</b>	-	-	-	-	-	-	-	-	1,092	1,092	1,092	1,932	3,024
<b>Transaction with equity holders</b>													
Capital reorganisation (Note a)	(98,383)	98,383	-	-	-	-	-	-	-	98,383	-	-	-
Conversion of convertible bonds	850	5,793	-	-	-	(1,279)	-	-	-	4,514	5,364	-	5,364
At 31 March 2013	25,446	277,691	10,084	-	276	-	178	12,251	(247,546)	52,994	78,380	(18,888)	59,492
<b>2014</b>													
At 1 January 2014	33,448	476,137	10,084	(20,749)	276	-	506	-	(230,817)	235,437	268,885	14,023	282,908
<b>Profit for the period and total comprehensive income for the period</b>	-	-	-	-	-	-	(310)	-	6,889	6,579	6,579	2,235	8,814
At 31 March 2014	33,448	476,137	10,084	(20,749)	276	-	196	-	(223,928)	242,016	275,464	16,258	291,722

Note:

- The capital reorganisation represents the amount arising from the reduction in the nominal value of the issued share capital of the Company pursuant to a special resolution passed on 5 December 2012.
- The special reserve represents the difference between the nominal amount of shares and share premium of the subsidiaries acquired and the nominal amount of the Company's shares issued as consideration pursuant to the Group reorganisation took place in 2003.
- The capital reserve represents the share of net liabilities of additional interest in subsidiaries acquired without change in control.

## NOTES

### 1. CORPORATE INFORMATION

China Digital Culture (Group) Limited (the "Company") is a limited liability company incorporated in the Cayman Islands and continued in Bermuda. The Company's shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda and its principal place of business is located at Room 2801A, Tower 1, Lippo Centre, 89 Queensway, Hong Kong.

The Group is principally engaged in providing copyright content to end-users through well-established platforms. In addition, the Group is also engaged in the business of providing marketing and promotional services for professional athletes.

### 2. STATEMENT OF COMPLIANCE

These condensed financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which collective term includes all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These condensed financial statements also comply with the applicable disclosure requirements under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

These financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2013 financial statements. The adoption of the new/revised HKFRSs that are relevant to the Group and effective from the current period had no significant effects on the results and financial position of the Group for the current and prior periods.

### 3. DISCONTINUED OPERATIONS

On 26 April 2013, the Group entered into a Sales and Purchase Agreement with a third party (the "Purchaser") to dispose of the Group's e-Learning business (the "Disposal"). The consideration for the Disposal is cash consideration of HK\$5,100,000. The Disposal was completed on 16 July 2013. The operating results of the disposed e-Learning business up to the disposal date have been presented as discontinued operations in this report. The presentation of comparative information in respect of the period ended 31 March 2013 has been restated to show the discontinued operations separately from continuing operations.

The results of the discontinued operation for the period ended 31 March 2014 and 2013 are summarised as follows:

	<b>Three months ended 31 March</b>	
	<b>2014 HK\$'000</b>	2013 HK\$'000
Turnover	–	2,600
Cost of services rendered and cost of goods sold	–	(1,000)
Gross profit	–	1,600
Other income	–	16
Administrative and other expenses	–	(1,465)
Profit before taxation	–	151
Income tax expense	–	(25)
Profit attributable to discontinued operation	–	126

#### 4. TURNOVER

Turnover comprises revenues from the following business activities of the Group:

	<b>Three months ended 31 March</b>	
	<b>2014 (Unaudited) HK\$'000</b>	2013 (Unaudited) HK\$'000
<b>Continuing operations</b>		
e-Licensing business – Entertainment	<b>8,273</b>	4,488
e-Licensing business – Sports	<b>18,102</b>	–
	<b>26,375</b>	4,488
<b>Discontinued operations</b>		
e-Learning business	–	2,600
<b>Total revenue</b>	<b>26,375</b>	7,088



## 5. TAXATION

Hong Kong Profits Tax has been provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. The income tax provision in respect of operations in the PRC is calculated at the applicable tax rates on the estimated assessable profits for the period based on existing legislation, interpretations and practices in respect thereof.

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2014</b>	2013
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
<b>Continuing operations</b>		
Current		
– Hong Kong	<b>1,875</b>	–
– PRC	<b>2,621</b>	47
<b>Discontinued operations</b>		
Current		
– Hong Kong	–	25
	<b>4,496</b>	72

## 6. DIVIDENDS

The directors of the Company do not recommend the payment of a dividend for the three months ended 31 March 2014 (31 March 2013: Nil).

## 7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to equity holders of the Company is based on the following data:

### (a) Basic earnings per share

	Three months ended 31 March	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Profit attributable to equity holders of the Company	6,889	1,092
	<b>Number of shares</b>	
	2014	2013
Shares		
Weighted average number of ordinary shares in issue during the period	3,344,853,349	2,471,643,301
Basic earnings per share	HK0.21 cents	HK0.04 cents

(b) Diluted earnings per share

	Three months ended 31 March	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Profit attributable to equity holders of the Company	6,889	1,092
	<b>Number of shares</b>	
	2014	2013
Shares		
Weighted average number of ordinary shares in issue during the period	3,344,853,349	2,471,643,301
Effect of dilutive potential ordinary shares:		
Warrants	43,101,641	–
Weighted average number of shares for the purpose of calculating diluted earnings per share	3,387,954,990	2,471,643,301
Diluted earnings per share	HK0.20 cents	HK0.04 cents



## 8. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to confirm with current period presentation.

## 9. EVENTS AFTER REPORTING PERIOD

On 14 May 2014, the Board of Directors of the Company ratified and approved the following:

- (i) The services agreement entered into the Company and Willing International Capital (Shanghai) Co. Ltd. (威菱投資諮詢(上海)有限公司) (“WICL”) on 1st April 2013 (the “Services Agreement”), pursuant to which the Company agreed to engage WICL in providing certain advisory services in relation to its financial reporting and corporate development areas;
- (ii) A memorandum of understanding executed on 14 May 2014 (the “MOU”), to record the subsequent oral agreement on the same date of the Services Agreement, to cancel the option to issue new shares of the Company in place of cash payments as consideration.

The Company was satisfied with the services provided by WICL and will pay US\$200,000 in cash for services rendered and further discretionary bonus of US\$100,000 in cash, according to the Services Agreement and the MOU.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

For the three months ended 31 March 2014, the Group recorded a turnover from continuing operations of approximately HK\$26,375,000 (31 March 2013: HK\$4,488,000) and a profit attributable to shareholders of the Company of approximately HK\$6,889,000 (31 March 2013: approximately HK\$1,092,000). The e-Licensing business includes both the Sports and entertainment segment.

### I. e-Licensing Business: Sports Segment

The Sports Segment includes the athlete management and Sports content licensing business.

During the three months ended 31 March 2014, the Sports Segment recorded a turnover of approximately HK\$18,102,000 (31 March 2013: HK\$0). The increase in turnover from the Sports Segment is primarily attributable to two reasons: (1) the acquisition of the additional 40% equity interest in Socle Limited ("Socle") in October of 2013 and (2) the acquisition of the entire equity interest of Nova Dragon Limited ("Nova Dragon") in April of 2013.

The athlete management business is principally engaged in assisting professional athletes, such as Jeremy Lin (林書豪), an NBA player, with marketing and promotional activities worldwide. More specifically, the Group works with professional athletes in obtaining marketing contracts and sponsorships from interested parties.

The Sports content licensing business is principally engaged in the licensing of sports content. The Group is one of the foremost providers of sports-related content in the PRC with licenses such as the China Football Association Super League, AFC Champions League, East Asian Football Championship and many more.



## II. e-Licensing Business: Entertainment Segment

The Entertainment segment includes the music and movie/television content licensing business.

For the three months ended 31 March 2014, the entertainment segment recorded a turnover of approximately HK\$8,273,000 (31 March 2013: approximately HK\$4,488,000). The increase in turnover is primarily attributable to the acquisition of Orient Digital Entertainment Company Limited (“ODE”) in April of 2013.

The Group has been the licensing agent for Universal Music Group, Warner Music Group, and Sony Music Entertainment since 2011, accumulating a library of over 450,000 pieces of music and representing one of the largest content providers on China Unicom as a music platform. The Group established an aggregate of 70 local ringtone products in numerous provinces and accumulated more than 80,000 long-term subscribers. Beginning in May of 2013, the Group obtained music rights from Golden Typhoon Group – a leading Chinese music label. Golden Typhoon Group represents a number of top-tier Taiwanese, Cantonese, and Mainland Chinese talents and also holds an extensive music library of over 600,000 songs. Further, Golden Typhoon Group is the exclusive agent for EMI with regard to the distribution of digital music in the Greater China Region, as well as the distribution agent for numerous other records produced worldwide.

The Entertainment segment also includes the promotion, sales and distribution of movies and television licensed content worldwide. In addition, the Group is also engaged in the production of movies, television shows and Broadway musicals. In the first quarter of 2014, ODE invested in the movie “軍中樂園” starring first-tier actors 阮經天和 陳意涵 and directed by the widely-acclaimed 鈕承澤. Furthermore, in November of 2013, the Company alongside KEAHORAL Technology Inc., China Interactive Sports, China Unicom, Phoenix New Media, Galloping Horse Media and OGN Television Station under the Korean Conglomerate CJ, entered into a strategic alliance to promote and develop the competitive cyber gaming industry in China. The Company anticipates aggressive progress in this particular segment of the entertainment business going forward in 2014.



## Outlook

The Group continues its effort in further developing its businesses in China's fast growing cultural, entertainment, and sports areas.

For the Sports segment, the Group is in negotiations with additional sports licensing holders to further expand the content offering. Also, The Group is always in the process of seeking additional athletes for representation and striving to obtain marketing and promotional contracts for these athletes.

For the Entertainment segment, the Group is expanding its operations into the production of movies, television shows, and Broadway musicals. Utilizing management's strong connections in the entertainment industry, the Group is working together with award-winning production teams, first-tier actors/directors and other experienced investors in producing high-quality and profit-driven projects.

## FINANCIAL REVIEW

For the three months ended 31 March 2014, the Group recorded an increase in its turnover from continuing operations to approximately HK\$26,375,000 (31 March 2013: approximately HK\$4,488,000). The increase in turnover was primarily attributable to the acquisition of additional equity interest in subsidiaries and entire equity interests in new businesses occurring after the first quarter of 2013.

The Group's gross profit margin from continuing operations decreased from 88% for the three months ended 31 March 2013 to 72% for the three months ended 31 March 2014. The decrease was due to the lower gross margin of the Sports segment.

The Group reported a net profit attributable to equity holders of approximately HK\$6,889,000 (31 March 2013: profit of approximately HK\$1,092,000) as a result of the significant increase in revenue attributed by the acquired companies in 2013.

Administrative and other expenses from continuing operations for the three months ended 31 March 2014 amounted to approximately HK\$5,597,000 (31 March 2013: approximately HK\$2,106,000), representing an increase of approximately 166% compared with the same period last year. The increase in administrative expenses was attributed by the expenses from acquired companies such as ODE, Nova Dragon and Socle.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2014, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange, were as follows:

### (i) Interest in Shares

Name of director	Nature of interests	Number or attributable number of Shares held or short positions	Approximate percentage or attributable percentage of shareholding
Mr. Hsu Tung Sheng	Beneficial	73,500,000 (L)	2.2%
Mr. Hsu Tung Chi (Note 1)	Beneficial Interest of controlled corporation	54,800,000 (L) 72,984,893 (L)	1.6% 2.2%
Daily Technology Company Limited (Note 1)	Beneficial	72,984,893 (L)	2.2%
Mr. Pang Hong Tao	Beneficial	7,000,000 (L)	0.21%
Mr. Chang Li Cheng (Resigned on 14/04/2014)	Beneficial	13,570,503 (L)	0.41%
Mr. Leung Hiu Kong, Edward	Beneficial	500,000 (L)	0.01%

(L) denotes long position



Note:

1. Mr. Hsu Tung Chi ("Mr. Hsu") beneficially owns 19,000,000 shares. Daily Technology Company Limited ("Daily Technology") is beneficially owned as to 98% by Mr. Hsu. Daily Technology beneficially owns 72,984,893 shares. Under the SFO, Mr. Hsu is deemed to be interested in 72,984,893 shares held by Daily Technology.

## (ii) Interest in share options

<b>Name of director</b>	<b>Nature of interests</b>	<b>Number of share options granted</b>	<b>Approximate percentage of interests</b>
Mr. Hsu Tung Sheng	Beneficial	–	–
Mr. Hsu Tung Chi	Beneficial	–	–
Mr. Pang Hong Tao	Beneficial	–	–

(L) denotes long position

Save as disclosed above, as at 31 March 2014, none of the directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register to therein, or which were required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by directors, to be notified to the Company and the Stock Exchange.



## SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Existing Share Option Scheme”) on 24 January 2003 pursuant to a written resolution of the Company. The Existing Share Option Scheme is valid and effective for a period of 10 years and expired on 23 January 2013. In light of the expiry of the Existing Share Option Scheme, the Company adopted a new share option scheme (the “New Share Option Scheme”) to replace the Existing Share Option Scheme pursuant to an ordinary resolution passed on 27 March 2013.

Upon expiry of the Existing Share Option Scheme, no further options can be granted thereunder. However, the provisions of the Existing Share Option Scheme shall remain applicable to any options granted but not yet exercised prior to the expiry of the Existing Share Option Scheme. As at 31 March 2014, no options has been granted under the Existing Share Option Scheme.

## SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors, as at 31 March 2014, the following persons (not being directors or chief executive of the Company) had, or were deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO or, who were or were expected, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

## (i) Interest in Shares

<b>Name of Substantial Shareholder</b>	<b>Nature of interests</b>	<b>Number or attributable number of Shares held or short positions</b>	<b>Approximate percentage or attributable percentage of shareholding</b>
Mr. Ma Bole (Note 1)	Interest of controlled corporation	497,698,238 (L)	14.88%
Ms. Xu Ziqi (Note 1)	Deemed	497,698,238 (L)	14.88%
Golden Mabole Culture Media Company Limited (Note 1)	Beneficial	497,698,238 (L)	14.88%

(L) denotes long position

Notes:

1. Golden Mabole Culture Media Company Limited ("Golden Mabole") is wholly and beneficially owned by Mr. Ma Bole ("Mr. Ma"). Golden Mabole beneficially owns 497,698,238 shares. Under the SFO, Mr. Ma is deemed to be interested in 497,698,238 shares held by Golden Mabole.

Ms. Xu Ziqi is deemed to be interested in 497,698,238 shares by virtue of being the spouse of Mr. Ma under the SFO.

Save as disclosed above, as at 31 March 2014, the directors were not aware of any other person (other than the directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and section 336 of the SFO, or who was directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.



## **COMPETING INTERESTS**

The directors believe that none of the directors, the management shareholders nor the substantial shareholder (as defined in the GEM Listing Rules) of the Company or any of its respective associates had an interest in a business which competes or may compete either directly or indirectly with the business of the Group as defined in the GEM Listing Rules, or has any other conflict of interests with the Group during the three months ended 31 March 2014.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

During the period ended 31 March 2014, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the period ended 31 March 2014.

## **CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") according to Appendix 15 of the GEM Listing Rules. The Company has applied the principles of the Code and complied with the code provisions set out in the Code for the three months ended 31 March 2014, except for the deviations from code provisions A.4.2 as detailed in the Corporate Governance Report that the Chairman is not subject to retirement by rotation.

Code provision A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Pursuant to the Bye-laws of the Company, any Director so appointed shall hold office only until the next following annual general meeting and so on from year to year until their places are filled. However, the Company believes that it is in the best interest of the Company's shareholders to transact this ordinary course of business in the annual general meeting and the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Bye-laws of the Company, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments on the quarterly reports. The audit committee comprises three members, Mr. Kwok Chi Sun, Vincent, Mr. Wong Tak Shing and Mr. Leung Hiu Kong, Edward, all of them are independent non-executive directors. The chairman of the audit committee is Mr. Kwok Chi Sun, Vincent.

The Group's unaudited quarterly results for the three months ended 31 March 2014 has been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirement and that adequate disclosure has been made.

As at the date of this report, the executive directors are Mr. Hsu Tung Sheng, Mr. Hsu Tung Chi and Mr. Pang Hong Tao. The independent non-executive directors are Mr. Wong Tak Shing, Mr. Leung Hiu Kong, Edward and Mr. Kwok Chi Sun, Vincent.

By order of the Board of  
**China Digital Culture (Group) Limited**  
**Hsu Tung Sheng**  
*Chairman*

Hong Kong, 15 May 2014